



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
FORMER JOHNSON COUNTY SHERIFF**

**Calendar Year 1998**

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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable Bill Witten, Johnson County Sheriff  
Honorable Don McFaddin, Former Johnson County Sheriff  
Members of the County Fiscal Court

The enclosed report prepared by Stephens & Lawson, P.S.C., Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Johnson County, Kentucky, as of December 31, 1998.

We engaged Stephens & Lawson, P.S.C., to perform the financial audit of this statement. We worked closely with the firm during our report review process; the resulting audit comports with our reporting format. As part of the audit, Stephens & Lawson, P.S.C., evaluated the Johnson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
FORMER JOHNSON COUNTY SHERIFF**

Calendar Year 1998



## **EXECUTIVE SUMMARY**

### **JOHNSON COUNTY DON MCFADDIN, FORMER SHERIFF CALENDAR YEAR 1998 FEE AUDIT**

The Johnson County Sheriff's 1998 fee audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). The audit revealed reportable internal control and several compliance issues that are reported in the comment and recommendation section. The Sheriff received operating revenue from various sources, including a personal loan in the amount of \$6,000 to fund the operations of his office when cash flows were low. The personal loan was repaid when the Sheriff received his tax commissions. The Sheriff's office generated excess fees of \$39,622 which represents net income of the office after paying all operating expenses for the year. Excess fees are payable to the Fiscal Court. The Sheriff had already paid \$20,000 in excess fees leaving a balance due the fiscal court of \$19,622.





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To the People of Kentucky

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Honorable Don McFaddin, Former Johnson County Sheriff  
Members of the Johnson County Fiscal Court

### Independent Auditors' Report

We were engaged to audit the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Johnson County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As describe in Note 1, the former Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Because of inadequate accounting records, we were not able to satisfy ourselves about the amounts shown as commission receipts, payroll, grant receipts and disbursements, nor were we able to test the adequacy of the collateral pledged to protect deposits during the course of the year.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement referred to in the first paragraph.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discusses the following areas of noncompliance:

- Former Sheriff Don McFaddin Should Have Presented An Annual Financial Statement To The Fiscal Court And Should Have Published The Financial Statement In The Local Newspaper.
- Former Sheriff Don McFaddin Should Have Prepared All Quarterly Reports As Required By The Department For Local Government.
- Former Sheriff Don McFaddin Should Have Maintained Accurate Receipt And Disbursement Ledgers And Should Have Maintained All Records Of His Office.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable R. T. Daniel, County Judge/Executive

Honorable Don McFaddin, Former Johnson County Former Sheriff

Members of the Johnson County Fiscal Court

- Former Sheriff Don McFaddin Should Have Maintained Proper Documentation For All Disbursements Of His Office.
- The Former Sheriff Should Have A Written Agreement To Protect Deposits.

In accordance with Government Auditing Standards, we have also issued a report dated September 7, 2000, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 7, 2000

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
~~STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES~~

Calendar Year 1998

~~Receipts~~

Federal Grant		\$	13,196
State Grant			3,510
State Fees For Services:			
Finance and Administration Cabinet			15,652
Circuit Court Clerk -			
Fines and Fees Collected	\$	543	
Sheriff Security Services		<u>7,281</u>	7,824
Fiscal Court			600
County Clerk - Delinquent Taxes			19,370
Commission on Taxes Collected			177,664
Fees Collected For Services -			
Auto Inspections	\$	11,305	
Accident and Police Reports		215	
Executions		210	
Carrying Concealed Deadly Weapon Permits		1,140	
Serving Papers		<u>16,445</u>	29,315
Other -			
Miscellaneous			5,688
Interest Earned			6,353
Borrowed Money:			
Personal Loan			<u>6,000</u>
Total Receipts (Carried Forward)		\$	285,172

The accompanying notes are an integral part of the financial statement

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 1998  
(CONTINUED)

Total Receipts (Brought Forward)		\$ <u>285,172</u>
<u>Disbursements</u>		
Operating Disbursements -		
Personnel Services -		
Deputies' Gross Salaries		\$ 134,139
Contracted Services -		
Advertising		257
Supplies and Materials -		
Office Materials and Supplies	\$ 5,838	
Uniforms	<u>1,030</u>	6,868
Auto Expense -		
Gasoline	\$ 8,426	
Maintenance and Repairs	<u>3,990</u>	12,416
Other Charges -		
Bond	\$ 152	
Conventions & Travel	3,527	
Dues	2,000	
Insurance	9,100	
Miscellaneous	22,889	
Postage	<u>303</u>	37,971
Debt Service -		
Personal Loan		<u>6,000</u>
Total Disbursements		\$ <u>197,651</u>
Net Receipts		\$ 87,521
Less: Statutory Maximum		<u>47,899</u>
Excess Fees Due County for Calendar Year 1999		\$ 39,622
Payment to County Treasurer - March 25, 1999		<u>20,000</u>
Balance Due at Completion of Audit		<u><u>\$ 19,622</u></u>

The accompanying notes are an integral part of the financial statement

**JOHNSON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

December 31, 1998

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Fund Accounting**

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

**B. Basis of Accounting**

The financial statement has been prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Revenue and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

**C. Cash and Investments**

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**NOTE 2 - EMPLOYEE RETIREMENT SYSTEM**

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.22 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1998  
(CONTINUED)

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

NOTE 3 - DEPOSITS

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.



## COMMENTS AND RECOMMENDATIONS



JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

Current Year Comments and Recommendations:

Former Sheriff Don McFaddin Should Have Presented An Annual Financial Statement to Fiscal Court and Should Have Published the Financial Statement in the Local Newspaper

Former Sheriff Don McFaddin did not present an annual financial statement to the fiscal court nor did he publish a financial statement. KRS 134.310 requires the Sheriff to file a statement of receipts and expenditures of funds of the office with the fiscal court. KRS 424.220 requires a financial statement to be published within sixty days after the close of the calendar year. We recommend the former Sheriff's office comply with these statutes.

*Former Sheriff's Response: No Comment*

Former Sheriff Don McFaddin Should Prepare All Quarterly Reports As Required By The Department for Local Government

The former Sheriff did not submit his four quarterly reports to the Department for Local Government for calendar year 1998. Pursuant to KRS 68.210, the State Local Finance Officer may require officials of local governments to submit such financial reports, as he may deem proper. We recommend the former Sheriff complete all quarterly reports as required by the Department for Local Government.

*Former Sheriff's Response: No Comment*

Former Sheriff Don McFaddin Should Maintain Accurate Receipts and Disbursements Ledgers and Should Maintain All Records of His Office

During the course of our audit, we noted the receipts and disbursements ledgers were not maintained accurately and that all transactions were not recorded in the ledgers. There were several transactions that occurred after December 31, 1998, that were not posted to the receipts and disbursements ledgers.

*Former Sheriff's Response: No Comment*

Former Sheriff Don McFaddin Should Have Maintained Proper Documentation For All Disbursements of His Office

During the test of disbursements, we noted the former Sheriff did not maintain several invoices for checks written on his 1998 general fund. We remind the former Sheriff that any disbursements not accompanied by proper documentation could be deemed disallowed expenses and the former Sheriff would be responsible for depositing personal money to cover the expenses.

*Former Sheriff's Response: No Comment*

The Former Sheriff Should Have A Written Agreement To Protect Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
SCHEDULE OF COMMENTS AND RECOMMENDATIONS  
Calendar Year 1998  
(Continued)

Current Year Comments and Recommendations (Continued):

The Former Sheriff Should Have A Written Agreement To Protect Deposits (Continued)

public funds on deposit at all times. As of December 31, 1998, the former Sheriff had bank deposits of \$74,399; FDIC insurance of \$100,000; and collateral pledged or provided of \$3,862,886. Even though the former Sheriff obtained sufficient collateral of \$3,862,886, there was no written agreement between the former Sheriff and the depository institution, signed by both parties, securing the former Sheriff's interest in the collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Former Sheriff's Response: No Comment*

Prior Year Comments and Recommendations:

- Former Sheriff Don McFaddin should have presented an annual financial statement to the Fiscal Court and should have published the financial statement in the local newspaper.
- Former Sheriff Don McFaddin should prepare all quarterly reports as required by the Department for Local Government.
- Former Sheriff Don McFaddin's office lacked proper segregation of duties.
- Former Sheriff Don McFaddin should maintain accurate receipts and disbursements ledgers and should maintain all records of his office.
- Former Sheriff Don McFaddin should have deposited all monies received by his office in an official interest bearing account.
- Former Sheriff Don McFaddin should have required the depository institution to pledge additional securities to protect deposits from potential bank loss
- The Fiscal Court should take appropriate action required to collect the amount due from the former Sheriff, Esther Cyrus and former Sheriff, Don McFaddin who still owes excess fees of \$3,119 for calendar year 1995, \$2,681 for calendar year 1996, and \$15,392 for calendar year 1997.
- Former Sheriff Don McFaddin should have maintained proper documentation for all disbursements of his office.

REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Honorable R. T. Daniel, County Judge/Executive  
Honorable Don McFaddin, Former Johnson County Sheriff  
Members of the Johnson County Fiscal Court

Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of the Financial  
Statement Performed in Accordance With Government Auditing Standards

We were engaged to audit the former Johnson County Sheriff as of December 31, 1998, and issued our report thereon dated September 7, 2000, we did not issue an opinion on the financial statement due to inadequate accounting records and our inability to test certain items. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Johnson County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Due to inadequate accounting records, we were unable to satisfy ourselves as to commission receipts, payroll, grant receipts and disbursements, nor were we able to test the adequacy of collateral pledged to protect deposits during the year.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable conditions above are material weaknesses.

Honorable R. T. Daniel, County Judge/Executive  
Honorable Don McFaddin, Former Johnson County Sheriff  
Members of the Johnson County Fiscal Court  
Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of the Financial  
Statement Performed in Accordance With Government Auditing Standards  
(Continued)

This report is intended for the information of management. However, this report, upon release, is a matter of public record and its distribution is not limited.

Respectfully Submitted,  
  
Stephens & Lawson, P.S.C.  
  
Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 7, 2000



